

## Message Text

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ACTION SS-25

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 3816

S E C R E T TEHRAN 6506

EXDIS

E.O. 11652: GDS

TAGS: ENRG IR ECON

SUBJECT: VIEWS OF SHAH ON OIL AND OTHER PRICES

REF: (A) TEHRAN 62/79

A (B) TEHRAN 6462

1. AT END OF AUDIENCE GRANTED TO INTRODUCE GENERAL DUVAL BRETT, NEW CHIEF OF ARMISH/MAAG, SHAH REFERRED TO INCREASED CRUDE OIL PRICES IN INDONESIA, NIGERIA AND VENEZUELA. HE COMMENTED, "GRANTED THAT MUCH OF THIS OIL IS OF LOW SULPHUR CONTENT, IT WOULD NOT MAKE SENSE FOR US TO ASK LESS FOR OUR OIL THAN THEY ARE

GETTING FOR THEIRS." THE SHAH THEN SWITCHED TO A DISCUSSION OF COMMODITY AND OTHER PRICE RISES STATING, "IT IS FANTASTIC HOW PRICES OF FOOD AND OTHER ITEMS HAVE RISEN IN THE UNITED STATES. SOME ARE UP 3 AND 4 HUNDRED PERCENT. WHERE IS ALL THIS GOING TO BRING US? AS OIL PRICES GO UP, IT WILL CAUSE EVEN FURTHER INCREASES IN THE PRICE OF GOODS AND COMMODITIES WHICH WE MUST IMPORT. I NEVER ANTICIPATED THAT THE INCREASES WOULD COME SO FAST OR BE SO LARGE. IF YOU AND THE EUROPEANS DO NOT GET TOGETHER AND DO SOMETHING ABOUT THESE SPIRALING PRICES, I CANNOT SEE HOW SERIOUS TROUBLE FOR THE WESTERN ECONOMY CAN BE AVOIDED." AT THIS POINT I MOVED IN TO EMPHASIZE FAVORABLE CROP REPORTS FROM THE  
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UNITED STATES WHICH WOULD HAVE SOME EFFECT ON EXISTING FOOD PRICES. I ALSO POINTED OUT THAT THE UNITED STATES HAD THIS YEAR PLANTED 55 MILLION ADDITIONAL ACRES OF FOOD WHICH IN TEN MONTHS TO A YEAR WOULD INEVITABLY HAVE AN

EFFECT NOT ONLY ON AVAILABILITY BUT ALSO ON PRICES. FROM THE EXPRESSION ON HIS FACE IT WAS CLEAR THAT THE SHAH HAD NOT APPRECIATED THE SIGNIFICANT DIMENSION OF THIS U.S. AGRICULTURAL MOVE.

2. AS INDICATED IN REFTEL (B), THE SHAH IS NOT ONLY DEEPLY CONCERNED BUT ALSO TORN OVER HOW TO PROCEED IN THE ECONOMIC FIELD. HE SAID THAT HE INTENDED TO KEEP DOWN THE PRICE OF DOMESTIC WHEAT SINCE HE HAD FOUND IT DIFFICULT TO REDUCE PRICES ONCE THEY HAD BEEN RAISED, AND HE EMPHASIZED THE PROBLEMS HE HAS WITH PRICES AND SHORTAGES ON SUCH ITEMS AS SUGAR, VEGETABLE OIL, FERTILIZER, AND PARTICULARLY CEMENT. IT IS INTERESTING TO NOTE THAT HIS PREOCCUPATION WITH THE ECONOMY HAS SUDDENLY COME INTO FOCUS WITHIN THE LAST TWO WEEKS SINCE HE MADE NO MENTION OF THESE MATTERS WHEN I HAD AN HOUR'S TALK WITH HIM ON AUGUST 28.

3. THE SHAH SAID NOTHING TO INDICATE THAT THE PROGNOSSES ABOUT OIL PRICES IN REFTELS (A) AND (B) ARE INACCURATE.

4. COMMENT: THERE HAVE BEEN MANY INDICATIONS FROM GOI MINISTRIES OF GROWING CONCERN OVER THE EFFECTS OF WORLD INFLATIONARY PRESSURES ON IRAN'S OWN PRICE STABILITY. THE SHAH HAS LONG BEEN PROUD OF GOI EXTRAORDINARY RECORD IN THIS REGARD. HOWEVER, IT IS BECOMING MORE AND MORE EXPENSIVE FOR IRAN TO CONTINUE TO SUBSIDIZE WHEAT, MEAT, SUGAR, VEGETABLE OIL AND OTHER SALES TO THE PUBLIC. FAILURE TO DO SO NOW WOULD CAUSE SERIOUS AND PERHAPS ACTIVE DISSATISFACTION. THESE CONCERNS HAVE OBVIOUSLY FOUND THEIR WAY TO THE SHAH IN CONCENTRATED FORM. HE APPEARS TO BE SEEKING, SO FAR WITHOUT SUCCESS, TO FIND A RATIONAL WAY TO APPROACH THESE MULTIPLE PROBLEMS. IT SEEMS CLEAR THAT HE IS TORN ON THE ONE HAND BY THE NEED TO KEEP HIS INTERNATIONAL IMAGE AS A LEADER IN PETROLEUM AFFAIRS INTACT AND ON THE OTHER BY A GROWING REALIZATION OF THE DIRECT EFFECTS OF INTERNATIONAL PRICE INCREASES ON IRAN'S OWN ECONOMIC DEVELOPMENT.

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## Message Attributes

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